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## China, Peoples Republic of

### Sugar

### Annual

### 2009

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**Report Highlights:**

Total Chinese centrifugal sugar output is forecast to increase nine percent to 14.5 MMT (raw value) in marketing year (MY) 2009/10. Due to the industry practice of maintaining a preset purchase price for sugar cane and beets each year, the market returns and planted area for these two crops have been relatively consistent compared with other competing crops. MY 08/09 production is estimated at 13.5 MMT (raw value), down 15 percent from the previous year due to a substantial drop in yield caused by unusually low winter temperatures and excessive rainfall in summer. To boost sugar consumption, the government will likely implement further cuts in production of artificial sugar and limit its sale on the domestic market.

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## Executive Summary

Total Chinese centrifugal sugar output is forecast to increase nine percent to 14.5 MMT (raw value) in marketing year (MY) 2009/10. Due to the industry practice of maintaining a preset purchase price for sugar cane and beets each year, the market returns for these two crops have been relatively consistent compared with other competing crops. In MY 09/10, acreage for sugar cane is forecast to remain unchanged from the previous year and sugar beet acreage is forecast to fall slightly. MY 08/09 production is estimated at 13.5 MMT (raw value), down 15 percent from the previous year due to a substantial drop in yield caused by unusually low winter temperatures and excessive rainfall in summer. The consumption of natural sugar in MY 2009/10 is forecast to rise five percent, driven by growth in the beverage and food processing sectors. To boost sugar consumption, the government will continue to control production of artificial sugar and limit its sale on the domestic market.

## Sugar Cane

Sugar cane harvested area for MY 09/10 is forecast at 1.62 million hectares (Ha), unchanged from MY 08/09. Sugar cane area accounted for 87 percent of the total crop area in MY08/09. Guangxi remains the dominant sugar cane producing province, followed by Yunnan, Guangdong, and Hainan provinces. Guangxi's output is estimated to account for 60 percent of China's sugar cane production in MY 08/09.

In MY 08/09, several factors combined to reduce yield. The cane in Guangxi was first adversely affected by a 40-day period of low temperatures in January and February 2008 and then by excessive rainfall that summer. The freezing temperatures hurt plant germination and consequently reduced the plant density (per Ha) in the northern part of the province. In summer, excessive rainfall and low temperatures in major production regions resulted in reduced plant height and lower sugar content. Some sugar mills in Guangxi report that the crop's sugar content level is estimated to be lower than 12 percent, while the average sugar content level is above 13.5 percent. Total sugar cane yield is estimate to drop 10 percent in MY 08/09 from the previous year, to 67.5 tons/Ha. According to the provincial agricultural department, the goal for yield improvement is Guangxi is 105 tons per hectare and a sugar content of 14.5 percent. Realization of these goals will require substantial progress in variety improvement and massive investment in irrigation facilities.

As a pillar industry in the province and a major contributor for provincial revenue, sugar cane remains a stable source of income for Guangxi's farmers. To encourage farmers to plant more, millers raised the purchase price for sugar cane between 2004 and 2007. Sugar prices declined due to a record production in MY 07/08, though mills did not lower the purchase price for cane accordingly. In MY 08/09, the unchanged purchase price for cane squeezed the profit margin for sugar mills amid falling sugar prices and rising input prices.

At the beginning of each marketing year, provincial governments in the southern sugar cane production regions announce a pre-set (floor) purchase price for cane. The pre-set purchase price is guidance for millers when they purchase cane from the farmers. The table below shows the historical pre-set purchase price in Guangxi. If the sugar price increases during the marketing year, sugar mills usually pay their contracted cane farmers a bonus. In MY 08/09, the average cane price in four major producing provinces was \$35.5/MT (RMB242/MT). In Guangxi province, the cane purchase price is estimated at \$39.7/MT (RMB 270/MT) in MY08/09, unchanged from the previous year.

Provincial governments have not announced the pre-set purchase price for cane in MY 09/10. Post forecasts that the purchase price will remain roughly at the same level as the previous year, which will guarantee a reasonable profit for cane farmers. However, due to a falling

profit margin, mills might reduce other forms of support for cane farmers, such as to stop offering discounted fertilizer for cane farmers or to reduce the price premium on cane varieties with higher sugar content. In the previous years, there has been price premium for cane varieties with higher sugar content.

Purchase Price of Sugar Cane in Major Producing Provinces				
RMB/MT (USD1.00 = RMB6.8)				
	Guangxi	Yunnan	Guangdong	Hainan
MY04/05	180	150	185	160
MY05/06	220	170	200	175
MY06/07	270	202	303	206
MY07/08	270	202	290	206
MY08/09	270	202	290	206

### Sugar Beet

Sugar beet area for MY 09/10 is forecast at 230,000 HA, down slightly from MY08/09. Rising prices for competitor crops, such as tomatoes and oilseeds, is making sugar beets less attractive to farmers. Increased prices for agricultural inputs reduced the profit margin for both beet farmers and mills in MY 08/09. Industry sources estimate that the price for agricultural chemicals and fuels rose by 20 percent in MY 08/09, while the average sugar price in MY 08/09 is 11 percent lower than the previous year. During previous marketing year, beet production has been far behind the millers' processing capacity. To encourage beet planting, sugar mills raised the beet purchase price for MY 08/09 at planting season. To keep sugar beets competitive with other crops, the millers in northern China provinces repeatedly raised the beet price in recent years. However, in MY 09/10, the purchase price for beets is forecast to be unchanged due to the narrowed profit margin for sugar mills.

Purchase Price of Sugar Beet in Major Producing Provinces			
RMB/MT (USD1.00 = RMB6.8)			
	Xinjiang	Heilongjiang	Inner Mongolia
MY05/06	240	280-320	260-300
MY06/07	260	310-340	300-350
MY07/08	230-260	320-360	310-330
MY08/09	300-330	320-370	320-340
Source: Guangxi Sugar Market			

In Xinjiang province, the largest beet sugar producer in China, the beet price in MY 08/09 averaged about \$46.3/MT (RMB315/MT). This is 28 percent higher than the previous year. In MY08/09, the province's sugar output is estimated at three percent of total national sugar output. Post estimates the average beet yield in MY 08/09 was 34 MT/HA, five percent lower than the previous year. Industry sources attribute the reduced yield to the drought that occurred in May in Xinjiang, due to which about 40 percent of the beet area had to be replanted. In the minor production province of Heilongjiang, farmers reported that plant diseases were more severe than the previous year due to bad rotation practices and decline in seed quality.

The chronic lack of quality seed has been a bottleneck for the sector's development. The government views the beet as a minor agricultural crop and, therefore, seed research and development receives very little government support and funding. The current average Chinese beet yield is about half American or European yields, which indicates a great potential for seed improvement in China in years to come.

## Sugar

### Production

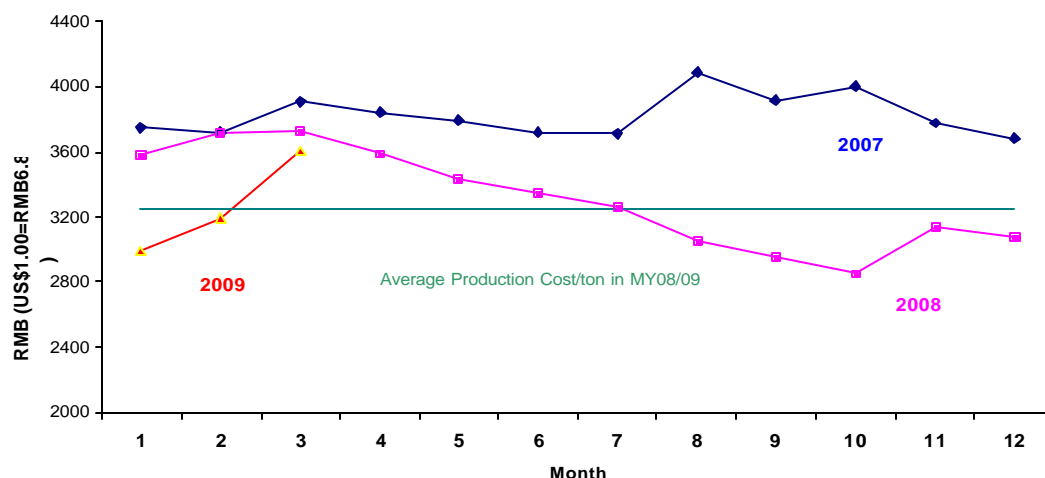
Assuming an average yield for both cane and beets, overall sugar output for MY 09/10 is forecast to reach 14.5 MMT (raw value), nine percent higher than MY 08/09. Cane sugar output for MY 09/10 is forecast at 13.4 MMT, seven percent higher than MY 08/09. Beet sugar output is forecast at 1.1 MMT in MY08/09, 10 percent higher than MY 08/09. The top five producing provinces are: Guangxi, Yunnan, Guangdong, Hainan and Xinjiang. Their output is estimated to account for 95 percent of national total sugar output in MY 08/09. MY 08/09 production is estimated at 13.5 MMT (raw value), 15 percent lower than the previous year due to a drop in both cane yield and sugar content level. According to industry contacts, most of the mills will finish crushing by the end of April 2009 due to a smaller crop, while in the previous years the crushing season extended until mid-May.

The average production cost for sugar in Guangxi was estimated at \$478/ton (RMB3,250/ton) in MY 08/09, while it was \$471/ton (RMB3,200/ton) in MY 07/08. Fuel and labor price rises are the major factors that boosted the production cost.

In MY08/09, at the beginning of the crushing season, the sugar price fell below the production cost due to a high stock level and sluggish demand. As a result, the industry lobbied the central government to purchase sugar to hold as state reserves during the processing season. In December 2008, the National Development & Reform Commission and People's Bank of China jointly announced the plan to extend loans for the industry to purchase 2.8 MMT of refined sugar from the market to store as a temporary industrial reserve. The loan lasted six months and helped alleviate the sector's need to pay cane farmers and maintain smooth production operations.

In addition to the industrial reserve program, the Ministries of Commerce and Finance and the National Development & Reform Commission jointly published a plan in January 2009 to purchase 800,000 tons of white sugar for the national sugar reserve. The purchase price is fixed at \$485/ton (RMB 3,300/ton), in reference to wholesale sugar price in Guangxi, and there is no closing date for the purchase program. This price is \$29.40/ton (RMB 200/ton) lower than the previous year. The government designated about 20 sugar reserve warehouses in consuming regions to store the sugar. The final settlement prices at different warehouses vary in accordance with their transportation cost from Guangxi province. Industry sources estimate that the actual amount purchased is less than 800,000 tons because the announcement of the program substantially has boosted the market price since January and the current market price is higher than the government purchase price. Post believes that the final purchased volume will not reach the maximum purchase amount.

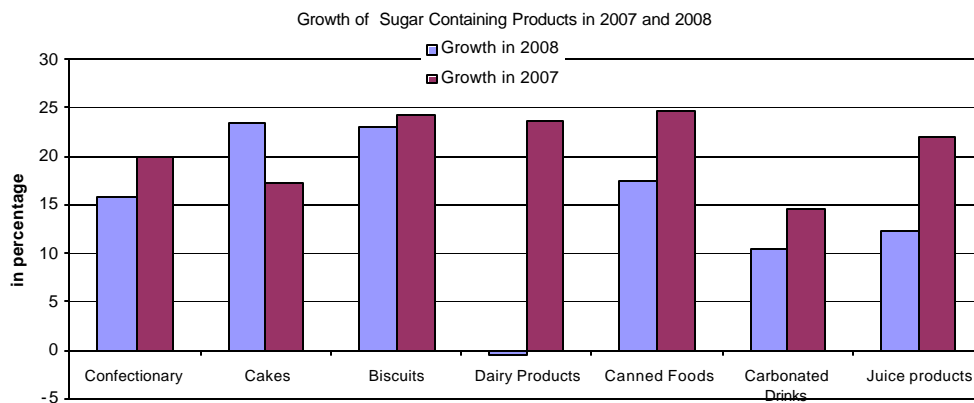
Wholesale Price of Grade 1 Granulated Sugar in Guangxi Province 07-09



Source: Guangxi Sugar Exchange Center, [Website: www.chinasugarmarket.com](http://www.chinasugarmarket.com)

## Consumption

MY 09/10 sugar consumption is forecast at 15.4 MMT (raw value), five percent higher than MY 08/09. Total per capita natural sugar consumption in MY 08/09 is estimated at about 11 Kg (raw value). The food processing, beverage, and pharmaceutical industries are the largest consumers of sugar, while household table sugar consumption is declining and accounts for a relatively small portion of the total. Official data shows that rural per capita table sugar consumption reached 1.07 Kg in 2007, down slightly from 1.09 Kg in 2006. Though the government stopped releasing data on urban per capita sugar consumption in 2001, Post estimates that it also dropped slightly in recent years. Growth in sugar consumption is mostly attributed to the rapidly growing processed food and beverage sectors and catering services. However, the sector's development in MY 08/09 is estimated to be slower than the previous year due to the overall economic slowdown and some food safety scandals. For instance, due to melamine contamination, dairy products production in CY 2008 dropped by 0.5 percent from the previous year, though its growth averaged more than 20 percent a year prior to 2008. The dairy processing sector is an important user of sugar.



Source: China National Statistical Bureau

Starch sweeteners are often used in beverage, confectionary, and bakery production as a substitute for sugar. In the beginning of MY 08/09, because of a bumper crop, the average corn price dropped by five percent and the starch sweeteners became competitive versus cane and beet sugar. During the marketing year, sugar use in the food processing and beverage sector is periodically substituted by starch sweeteners when a favorable price appears for corn.

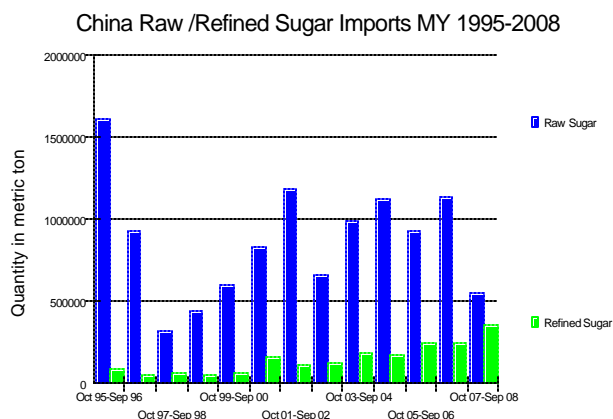
## Trade

MY 09/10 imports are forecast at 900,000 MT, 250,000 MT higher than the estimate for MY 08/09, as consumption continues to outpace domestic production. Imports usually start to arrive in China after the crushing season ends and the domestic price starts to increase. The TRQ for CY 2008 is 1.95 MMT, with an in-quota-tariff of 15 percent. The CY 2008 out-of-quota tariff rate is 50 percent. The amounts of the quota and the tariff rate have been unchanged since 2005 and will remain the same in the coming years in line with China's World Trade Organization (WTO) obligations.

As stipulated in China's WTO accession agreement, 30 percent of the TRQ (585,000 MT) is reserved for non-state trading enterprises and the remaining 70 percent is assigned to state trading enterprises. Each year, China imports about 450,000 MT of raw sugar (state trade) from Cuba under a longstanding bilateral agreement signed in 1950's.

Regarding the 30 percent of the TRQ (585,000) for non-state trading enterprises, trade sources report that the amounts of allocation they receive in most cases are not commercially viable for a Panamax vessel shipment. The traders have to pool their quota and sometimes the quotas are traded at a price of around \$20/ton.

Due to adequate stocks levels, raw sugar imports are estimated to drop by 18 percent to 470,000 MT in MY 08/09 and refined sugar imports are estimated to drop by 55 percent to 180,000 MT. Trade sources report that in previous years, the food processing sector used imported refined sugar to manufacture some canned fruits designated for export. In MY 08/09, this trade has been adversely impacted by the global economic slowdown.



## Stocks

Ending stocks for MY09/10 are forecast at 3.39 MMT (raw value). Ending stocks for MY 08/09 are estimated at 3.34 MMT (raw value), 500,000 MT lower than the previous year. Stocks include state reserves and those held by the industrial, commercial, and distribution sectors. Generally, these stocks are considered to be adequate.

Except for a marketing year with a short domestic crop, the imported Cuban sugar normally first enters state reserves. Near the end of each marketing year, in an effort to dampen wide market price swings, the government then decides on the timing and the volume of stocks to be auctioned. Under normal storage conditions, raw sugar could be stored for up to five years while refined sugar can be stored for up to 15 months and still meet Chinese sanitary requirements.

## Other Sweeteners

### Saccharine

Saccharine, which is five hundred times sweeter than sugar, is viewed as the major competitor to sugar. Since 2002, the Chinese government has tightened control on the sale of saccharine in China. However, it still produces and exports far more than it consumes domestically. In 2008, China produced 12,515 MT of saccharine, of which 10,904 MT were exported and 2,231 MT sold in China. In 2007, domestic sales were 2,922 MT. China Sugar Association (CSA) oversees the saccharine sector and sets limits on production and domestic sales of saccharine. Industry sources estimate that the government will continue to tighten its control on domestic saccharine sales in order to boost natural sugar consumption.

Currently, only five saccharine plants are licensed for operation. Each month these five plants are required to report to CSA on their operational activities, including production progress, domestic and export sales, and stock levels.



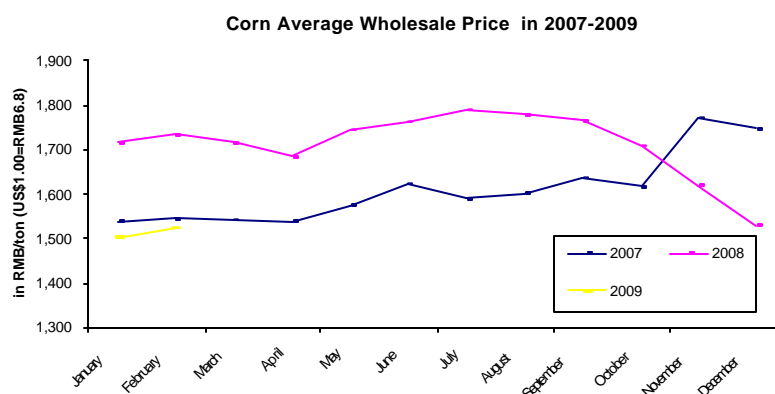
### Starched-based Sweeteners

Official data on starch-based sweeteners is not available. Industry sources estimate that production of starch-based sweeteners in 2008 reached 5.0 MMT, four percent higher than the previous year. China's corn production in 2008 reached a record high of approximately 165 MMT and corn prices dropped five percent year-on-year in MY 08/09.

The drop in the corn prices increased the profit margin for starch sweeteners and it became more favorable for the food processing and beverage sector during the marketing year. There was a government purchase program for corn in northeastern province since February 2009, though the corn purchase program covered only northeastern provinces. More than half of starch sweetener production in China is located in Hebei and Shandong provinces,



outside of the areas with the price support program, and the corn price in these provinces are relatively lower than the main production areas. Post forecasts that starch sweetener production will maintain a growth rate of five percent in MY 09/10. The use of starch sweeteners in MY08/09 is equivalent to about 3.5 MMT of cane sugar.



## Tables

### Production, Supply, and Demand (PSD) Tables

**Table 1. Centrifugal Sugar**

Sugar, Centrifugal China	2008			2009			2010	
	2007/2008			2008/2009			2009/2010	
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009	
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed	Jan
			Data			Data		Data
Beginning Stocks	1,401	1,401	1,401	3,297	3,297	3,965		3,395
Beet Sugar Production	1,262	1,262	1,262	1,285	1,285	1,000		1,100
Cane Sugar Production	14,636	14,636	14,636	14,500	14,500	12,500		13,400
Total Sugar Production	15,898	15,898	15,898	15,785	15,785	13,500		14,500
Raw Imports	500	500	572	450	450	470		700
Refined Imp.(Raw Val)	400	400	400	200	200	180		200
Total Imports	900	900	972	650	650	650		900
Total Supply	18,199	18,199	18,271	19,732	19,732	18,115		18,795
Raw Exports	7	7	7	6	6	3		5
Refined Exp.(Raw Val)	45	45	49	45	45	40		35
Total Exports	52	52	56	51	51	43		40
Human Dom. Consumption	14,850	14,850	14,250	16,335	16,335	14,677		15,410
Other Disappearance	0	0		0	0	0		0
Total Use	14,850	14,850	14,250	16,335	16,335	14,677		15,410
Ending Stocks	3,297	3,297	3,965	3,346	3,346	3,395		3,345
Total Distribution	18,199	18,199	18,271	19,732	19,732	18,115		18,795

Table 2. Sugar Cane

Sugar Cane for Centrifugal China	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	1,600	1,600	1,586	1,620	1,620	1,620			1,620
Area Harvested	1,600	1,600	1,586	1,620	1,620	1,620			1,620
Production	115,000	115,000	112,950	116,000	116,000	105,000			112,000
Total Supply	115,000	115,000	112,950	116,000	116,000	105,000			112,000
Utilization for Sugar	115,000	115,000	112,950	116,000	116,000	105,000			112,000
Utilizatr for Alcohol	0	0		0	0				
Total Utilization	115,000	115,000	112,950	116,000	116,000	105,000			112,000

Table 3. Sugar Beet

Sugar Beets China	2008			2009			2010		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Planted	300	300	250	315	300	235			230
Area Harvested	300	300	216	315	300	235			230
Production	10,000	10,500	8,931	11,100	11,050	8,000			9,000
Total Supply	10,000	10,500	8,931	11,100	11,050	8,000			9,000
Utilization for Sugar	10,000	10,500	8,931	11,100	11,050	8,000			9,000
Utilizatr for Alcohol	0	0		0	0				
Total Distribution	10,000	10,500	8,931	11,100	11,050	8,000			9,000

## Price Table

Table 4. Wholesale Price of Grade 1 Granulated Sugar in Guangxi Province

RMB/MT (US\$1.00=RMB6.8)					
Month	2005	2006	2007	2008	2009
January	2,590	4,449	3,656	3,442	2,828
February	2,996	5,071	3,599	3,657	3,045
March	3,132	4,903	3,760	3,528	3,478
April	3,109	4,679	3,723	3,360	
May	3,115	4,711	3,639	3,250	
June	3,224	4,583	3,576	3,216	
July	3,417	4,361	3,476	3,081	
August	3,467	3,949	3,867	2,802	
September	3,684	4,229	3,736	2,751	
October	3,760	4,221	3,925	2,746	
November	3,514	4,217	3,595	2,911	
December	4,055	3,861	3,498	2,905	
Yearly Average	3,339	4,436	3,670	3,137	
Source: Guangxi Sugar Exchange Center					
Website: <a href="http://www.chinasugarmarket.com">www.chinasugarmarket.com</a>					

## Trade Tables

Table 5. China's Sugar Imports by Origin - MY 2007/2008 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	221,456	136,129	390,219	172,559	920,364
Korea, South	46,049	26,553	30,177	31,903	134,681
Cuba	45,323	27,104	240,560	114,905	427,892
Thailand	25,919	4,417	29,810	9,073	69,219
Australia	5,844	221	1,556	3,125	10,747
Malaysia	728	0	1,667	978	3,372
Japan	102	5	26	30	163
Germany	1	5	21	25	52.344
Mauritius	3	12	16	7	37
Brazil	125	95	100	50	370.054
China	0	0	0	1	1.155
United States	5	4	6	3	18.275
France	0	5	0	6	11.46
Taiwan	3	1	7	12	22.849
Italy	0	0	0	0	0.21
Others	97,354	77,708	86,272	12,441	273,775

Source: China Customs

Table 6. China's Sugar Imports by Origin - MY 2008/2009 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	81,055				81,055
Korea, South	42,229				42,229
Cuba	25,481				25,481
Thailand	10,051				10,051
Australia	2,645				2,645
Malaysia	328				328
Japan	128				128
Germany	66				66
Mauritius	50				50
Brazil	45				45
China	19				19
United States	5				5
France	5				5
Taiwan	2				2
Italy	0				0
Others	2				2

Source: China Customs

Table 7. China's Sugar Exports by Destination - MY 2007/2008 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	11,442	15,697	11,653	14,207	52,999
Korea, North	51	24	46	38	159
Hong Kong	7,474	9,036	4,983	7,277	28,770
Singapore	487	267	251	643	1,648
United States	619	867	1,036	555	3,077
Taiwan	15	40	0	0	55
Tajikistan	0	0	0	0	0
Japan	742	1,879	2,237	323	5,182
Malaysia	361	184	367	578	1,490
Macau	83	227	180	210	700
Canada	206	114	165	94	580
Mauritius	0	0	54	200	254
Egypt	0	17	152	116	284
Syria	0	0	0	42	42
Others	1,404	3,042	2,181	4,131	10,758

Table 8. China's Sugar Exports by Destination - MY 2008/2009 (In MT)

Country	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sept	MY Total
World	20,833				20,833
Korea, North	8,045				8,045
Hong Kong	7,670				7,670
Singapore	756				756
United States	733				733
Taiwan	595				595
Tajikistan	540				540
Japan	435				435
Malaysia	304				304
Macau	259				259
Canada	223				223
Mauritius	183				183
Egypt	155				155
Syria	105				105
Others	831				831